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ACTION AF-18

DEPARTMENT OF STATE A/CDC/MR
REVIEWED BY 9 DATE 8/2/81
PORTIONS DENIED AS INDICATED

INFO OCT-01 EUR-20 NEA-13 CIAE-00 DODE-00 PM-05 H-02

INR-07 L-04 NSAE-00 NSC-10 P-03 RSC-01 PRS-01 SS-20

USIA-12 E-15 COM-08 INT-06 NIC-01 RSR-01 118481

P R 111543Z MAR 70
FM AMEMBASSY TRIPOLI
TO SECSTATE WASHDC PRIORITY 6064
INFO AMEMBASSY ALGIERS
AMEMBASSY BEIRUT
AMEMBASSY BENGHAZI
AMCONGEN DHAHRAN
AMEMBASSY JDDA
AMEMBASSY KUWAIT
AMEMBASSY LONDON
AMEMBASSY MOSCOW
AMEMBASSY TEHRAN

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SUBJ: POSTED PRICE NEGOTIATIONS

REF: TRIPOLI 0577 (SENT MOSCOW)

1. SUMMARY. TOW MONTAQLD#POSTED PRICE NEGOTIATIONS SEEM TO BE ENTERING TERMINAL STAGE. MINISTRY PETROLEUM AND MINERALS HAS CONVEYED TO BOTH COMPANIES AND EMBASSY UNDERSTANDING THAT RCC IS IMPATIENT WITH COMPANIES REFUSAL TO ACCEPT PRINCIPAL OF PRICE INCREASE AND IS CONSIDERING UNILATERAL ACTION. MINISTRY ANTICIPATES RCC INTERFERENCE TO IMPOSE SOLUTION OR TAKE RETALIATORY ACTION AGAINST COMPANIES WITHIN COMING WEEK (APRIL 4-10), UNLESS COUNTER OFFER FORTHCOMING. REPRESENTATIVES OF OWNERS OF LIBYAN PRODUCING COMPANIES ARE TO MEET IN NEW YORK APRIL 1 TO CONSIDER NEXT MOVE. MEANWHILE, SOVIETS HAVE MUDDIED WATERS BY APPARENTLY CONVINCING LARGE THEY CAN OFFER VIABLE MARKETING ALTERNATIVE IF LIBYA'S AGREEMENTS WITH ITS CONCESSIONAIRES ARE BREACHED. BALL IS SQUARELY IN COMPANIES' COURT AND THEY SEEM TO BE AWARE THAT ISSUE IS PRICE

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2. COUNTRY TO ESSO FEARS (REFTEL), IDENTAL#HAS HELD FIRM IN FACE OF MOUNTING PRESSURE TO SUBMIT OFFER FOR INCREASE IN POSTED PRICE. OXY LIBYA MANAGEMENT, SUPPORTED BY TEAM FROM COMPANY'S PARIS OFFICE, MET MARCH 28 WITH MINISTRY'S PRICE COMMITTEE FOR TECHNICAL DISCUSSION OF PRICING FACTORS, YIELD PATTERNS OF LIBYAN CRUDE, MARKET VALUE OF LOW SULFUR OIL AND FRIEGHT RATES. MEETING CONCLUDED WITH PRICE COMMITTEE TABLING POSITION OUTLINED TRIPOLI 486, AND OXY ARGUING NO PRICE INCREASE JUSTIFIED. ON MARCH 30, OXY RESIDENT MANAGER WILLIAMSON CALLED TO MINPET MABRUUK'S OFFICE (APPARENTLY AFTER MABRUUK HAD RECEIVED ANOTHER PROD FROM RCC ON PRICE ISSUE AND AGAIN WAS GIVEN ROUGH TREATMENT FOR OXY REFUSAL TO SUBMIT PRICE OFFER. [REDACTED] 134
RCC PRESSURE ON MINISTRY TO ACHIEVE PRICE INCREASE BECOMING SEVERE AND THAT UNILATERAL ACTION WAS GOOD POSSIBILITY. WILLIAMSON DEPARTED FOR NEW YORK SAME DAY TO ATTEND MEETING OF LIBYAN INDUSTRY REPS CALLED BY AMERADA-HESS AT CONTINENTAL'S NEW YORK OFFICE FOR APRIL 1. ESSO LIBYA PRESIDENT WYNNE, WHO ALSO HAS BECOME CONVINCED RCC MAY TAKE NEGOTIATIONS OUT OF MINISTRY'S HANDS, LEFT ON SAME PLANE TO ATTEND NEW YORK MEETING.

3. ALSO ON MARCH 30, EMBOFF MET WITH PETROLEUM U/S QABLAAWI TO QUERY HIM ON STATEMENTS BY SENIOR LIBYAN REP TO SEVENTH ARAB PETROLEUM CONGRESS ON LIKELIHOOD OF LARGE ACTION TO FORCE PRICE SETTLEMENT AND ON LARGE INTEREST IN OIL COOPERATION WITH USSR. (SEE MIDDLE EAST ECONOMIC SURVEY OF MARCH 20 AND KUWAIT 265.) QABLAAWI, WHO HAD JUST COME FROM MEETING WITH MINISTER AND PRICE COMMITTEE, AFFIRMED THAT UNILATERAL ACTION IS IN OFFING UNLESS COMPANIES KEEP NEGOTIATION ALIVE BY MAKING PRICE PROPOSAL. TO DO SO, PROPOSAL WOULD NEED TO BE RECEIVED BY APRIL 4 OR RCC ACTION COULD BE EXPECTED WITHIN WEEK, HE SAID. ASKED WHAT ACTION MIGHT BE TAKEN, QABLAAWI REPLIED ONCE PRICE ISSUE IS REMOVED FROM MINISTRY'S CONTROL HE COULD NOT PREDICT COURSE EVENTS MIGHT FOLLOW. HE ADDED HE FEARED CONSEQUENCES WOULD BE SERIOUS FOR BOTH LIBYA AND COMPANIES, BUT THAT COMPANIES HAD FAILED TO BE RESPONSIVE IN NEGOTIATIONS AND RCC WAS LOSING PATIENCE.

4. ON SOVIETS, QABLAAWI CONFIRMED PRESS REPORTS RUSSIAN AMBASSADOR, IVAN YARUSHIN, HAD MET WITH MINPET AND ADDED HE HAD SUBMITTED PROPOSAL TO PURCHASE LIBYAN CRUDE AND OFFERED MARKETING ASSISTANCE TO

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LARG IN EVENT ITS RELATIONS WITH CONCESSIONARY COMPANIES IMPAIRED BY DISPUTE OVER POSTED PRICES. QABLAAWI ALSO CONFIRMED RUMORS OF SOVIET PROPOSAL FOR JOINT OIL EXPLORATION VENTURE WITH RESTUCTURED LIBYAN NATIONAL OIL CORPORATION (FORMERLY LIPETCO), BUT DID NOT RPT NOT INDICATE JOINT VENTURE AGREEMENT LIKELY TO BE CONCLUDED SOON. QABLAAWI IMPLIED SOVIETS ALSO HAD BEEN IN CONTACT WITH RCC REGARDING CRUDE OIL MARKETING AND THAT LARG CONSIDERED SOVIET QUOTE OFFER UNQUOTE STRENGTHENED ITS HAND IN DEALING WITH OIL COMPANIES ON POSTED PRICE ISSUE. EMBOFF COMMENTED THAT NEITHER SOVIETS NOR OTHER SINGLE MARKETER COULD EXPECT TO PLACE ANYTHING APPROACHING PRESENT 3.6 MILLION B/D VOLUME OF LIBYAN OIL EXPORTS. QABLAAWI WINCED BUT REPLIED THAT MINISTRY AWARE ALTERNATIVE MARKETING ARRANGEMENTS WOULD BE POSSIBLE ONLY WITH SUBSTANTIAL DISCOUNTS, BUT THAT HE CONSIDERED THEM REALISTIC POSSIBILITY.

5. TURNING FROM UNPLEASANT PROSPECTS IF RRICE NEGOTIATIONS FAILED, QABLAAWI SAID MINISTRY STILL HOPED COMPANIES WOULD REALIZE PRECARIOUSNESS OF THEIR POSITION AND REACH SETTLEMENT ON PRICES BEFORE IT WAS TOO LATE. OTHER OUTSTANDING ISSUES HE MENTIONED IMPLEMENTATION PETROLEUM REGULATION 8 AND AGREEMENT ON DRAFT REGULATION 9) THEN ALSO COULD BE RESOLVED THROUGH NEGOTIATION.

6. SUBSTANCE QABLAAWI'S COMMENTS PASSED TO WYNNE BEFORE HIS DEPARTURE. HE ALREADY HAD CONCLUDED SITUATION SERIOUS ENOUGH TO WARRANT ATTENDING MEETING OF COMPANIES WITH LIBYAN INTERESTS BUT REMAINED NON-COMMITTAL ON ACTION ESSO OR OTHERS MIGHT TAKE.

7. COMMENT: QABLAAWI'S COMMENTS ARE MOST DEFINITIVE WE HAVE HEARD YET ON LARG'S INTENTIONS TOWARD COMPANIES AND SEEM TO FORESHADOW TROUBLE WHETHER OR NOT PRICE NEGOTIATIONS ARE SUCCESSFUL. WE NOTE MINPET HAD ALREADY SURFACED IDEA DURING NEGOTIATIONS WITH ESSO, THAT PETROLEUM LAW SHOULD BE AMENDED TO PROVIDE FOR CRUDE PURCHASE BY NATIONAL COMPANY AT COST. QABLAAWI TOO OBLIQUELY REFERRED TO SUCH AN AMENDMENT, IN TALKING WITH EMBOFFS AND LIBYAN DELEGATES:

AT KUWAIT PETROLEUM CONGRESS. WE ARE NOT AWARE THAT LIBYANS HAVE MENTIONED PRECEDENT FOR THIRD PARTY SALES SET BY ARRANGEMENTS IN SAUDI ARABIA AND IRAN, NO IT SEEMS THEY HAVE SOMETHING MORE AMBITIOUS IN MIND -- WITH THEIR APPETITES WHETTED BY THE SOVIETS.

8. WE BELIEVE COMPANIES ARE NOT ONLY FACED WITH MAKING IMMEDIATE

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DECISION ON POSTED PRICES

[REDACTED] HAVING VOICED VAGUE
THREATS, WHILE ALSO REVEALING SOMETHING OF ITS FUTURE STRATEGY,
LARG APPEARS CONFIDENT IT CAN AT LEAST WIN AGREEMENT ON POSTED
PRICE. WE THINK COMPANIES MAY YIELD SOMEWHAT ON PRICES, BUT, IF
THEY DO NOT, SOME UNILATERAL ACTION IS LIKELY. GP-4. PALMER.

NOTE: #AS: RECEIVED. WILL BE SERVICED UPON REQUEST.

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